

of the last financing transaction. Accordingly, the portion of the payments of interest that is recharacterized is $((DM\ 5,000,000 \times DM\ 1.4\%) / (DM\ 10,000,000 \times DM\ 1.4\%))$ or 0.5.

(f) *Effective date.* This section is effective for payments made by financed entities on or after September 11, 1995. This section shall not apply to interest payments covered by section 127(g)(3) of the Tax Reform Act of 1984, and to interest payments with respect to other debt obligations issued prior to October 15, 1984 (whether or not such debt was issued by a Netherlands Antilles corporation).

[T.D. 8611, 60 FR 41005, Aug. 11, 1995; 60 FR 55312, Oct. 31, 1995; 63 FR 67578, Dec. 8, 1998]

§ 1.881-4 Recordkeeping requirements concerning conduit financing arrangements.

(a) *Scope.* This section provides rules for the maintenance of records concerning certain financing arrangements to which the provisions of § 1.881-3 apply.

(b) *Recordkeeping requirements—(1) In general.* Any person subject to the general recordkeeping requirements of section 6001 must keep the permanent books of account or records, as required by section 6001, that may be relevant to determining whether that person is a party to a financing arrangement and whether that financing arrangement is a conduit financing arrangement.

(2) *Application of Sections 6038 and 6038A.* A financed entity that is a reporting corporation within the meaning of section 6038A(a) and the regulations under that section, and any other person that is subject to the recordkeeping requirements of § 1.6038A-3, must comply with those recordkeeping requirements with respect to records that may be relevant to determining whether the financed entity is a party to a financing arrangement and whether that financing arrangement is a conduit financing arrangement. Such records, including records that a person is required to maintain pursuant to paragraph (c) of this section, shall be considered records that are required to be maintained pursuant to section 6038 or 6038A. Accordingly, the provisions of sections 6038 and 6038A (including,

without limitation, the penalty provisions thereof), and the regulations under those sections, shall apply to any records required to be maintained pursuant to this section.

(c) *Records to be maintained—(1) In general.* An entity described in paragraph (b) of this section shall be required to retain any records containing the following information concerning each financing transaction that the entity knows or has reason to know comprises the financing arrangement—

(i) The nature (e.g., loan, stock, lease, license) of each financing transaction;

(ii) The name, address, taxpayer identification number (if any) and country of residence of—

(A) Each person that advanced money or other property, or granted rights to use property;

(B) Each person that was the recipient of the advance or rights; and

(C) Each person to whom a payment was made pursuant to the financing transaction (to the extent that person is a different person than the person who made the advance or granted the rights);

(iii) The date and amount of—

(A) Each advance of money or other property or grant of rights; and

(B) Each payment made in return for the advance or grant of rights;

(iv) The terms of any guarantee provided in conjunction with a financing transaction, including the name of the guarantor; and

(v) In cases where one or both of the parties to a financing transaction are related to each other or another entity in the financing arrangement, the manner in which these persons are related.

(2) *Additional documents.* An entity described in paragraph (b) of this section must also retain all records relating to the circumstances surrounding its participation in the financing transactions and financing arrangements. Such documents may include, but are not limited to—

(i) Minutes of board of directors meetings;

(ii) Board resolutions or other authorizations for the financing transactions;

(iii) Private letter rulings;

Internal Revenue Service, Treasury

§ 1.882-0

(iv) Financial reports (audited or unaudited);

(v) Notes to financial statements;

(vi) Bank statements;

(vii) Copies of wire transfers;

(viii) Offering documents;

(ix) Materials from investment advisors, bankers and tax advisors; and

(x) Evidences of indebtedness.

(3) *Effect of record maintenance requirement.* Record maintenance in accordance with paragraph (b) of this section generally does not require the original creation of records that are ordinarily not created by affected entities. If, however, a document that is actually created is described in this paragraph (c), it is to be retained even if the document is not of a type ordinarily created by the affected entity.

(d) *Effective date.* This section is effective September 11, 1995. This section shall not apply to interest payments covered by section 127(g)(3) of the Tax Reform Act of 1984, and to interest payments with respect to other debt obligations issued prior to October 15, 1984 (whether or not such debt was issued by a Netherlands Antilles corporation).

[T.D. 8611, 60 FR 41014, Aug. 11, 1995]

§ 1.882-0 Table of contents.

This section lists captions contained in §§ 1.882-1, 1.882-2, 1.882-3, 1.882-4 and 1.882-5.

§ 1.882-1 Taxation of foreign corporations engaged in U.S. business or of foreign corporations treated as having effectively connected income.

(a) Segregation of income.

(b) Imposition of tax.

(1) Income not effectively connected with the conduct of a trade or business in the United States.

(2) Income effectively connected with the conduct of a trade or business in the United States.

(i) In general.

(ii) Determination of taxable income.

(iii) Cross references.

(c) Change in trade or business status.

(d) Credits against tax.

(e) Payment of estimated tax.

(f) Effective date.

§ 1.882-2 Income of foreign corporation treated as effectively connected with U.S. business.

(a) Election as to real property income.

(b) Interest on U.S. obligations received by banks organized in possessions.

(c) Treatment of income.

(d) Effective date.

§ 1.882-3 Gross income of a foreign corporation.

(a) In general.

(1) Inclusions.

(2) Exchange transactions.

(3) Exclusions.

(b) Foreign corporations not engaged in U.S. business.

(c) Foreign corporations engaged in U.S. business.

(d) Effective date.

§ 1.882-4 Allowance of deductions and credits to foreign corporations.

(a) Foreign corporations.

(1) In general.

(2) Return necessary.

(3) Filing deadline for return.

(4) Return by Internal Revenue Service.

(b) Allowed deductions and credits.

(1) In general.

(2) Verification.

§ 1.882-5 Determination of interest deduction.

(a) Rules of general application.

(1) Overview.

(i) In general.

(ii) Direct allocations.

(A) In general.

(B) Partnership interest.

(2) Coordination with tax treaties.

(3) Limitation on interest expense.

(4) Translation convention for foreign currency.

(5) Coordination with other sections.

(6) Special rule for foreign governments.

(7) Elections under § 1.882-5.

(i) In general.

(ii) Failure to make the proper election.

(8) Examples.

(b) Step 1: Determination of total value of U.S. assets for the taxable year.

(1) Classification of an asset as a U.S. asset.

(i) General rule.

(ii) Items excluded from the definition of U.S. asset.

(iii) Items included in the definition of U.S. asset.

(iv) Interbranch transactions.

(v) Assets acquired to increase U.S. assets artificially.

(2) Determination of the value of a U.S. asset.

(i) General rule.

(ii) Fair-market value election.

(A) In general.

(B) Adjustment to partnership basis.

(iii) Reduction of total value of U.S. assets by amount of bad debt reserves under section 585.

(A) In general.

(B) Example.

(iv) Adjustment to basis of financial instruments.